Docket Nos. 01-0696
ICC Staff Exhibit 6.0

DIRECT TESTIMONY

of

DAVID A. BORDEN

Energy Division

Illinois Commerce Commission

Proposed General Increase in Natural Gas Rates

MidAmerican Energy Company

Docket No. 01-0696

March 1, 2002

Q. Please state your name and business address.

A. My name is David A. Borden. My business address is 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. Please briefly state your qualifications and education background.

A. In 1986, I graduated from the University of Texas at Austin with a Bachelor of Arts degree in Economics. In 1989, I graduated from Texas A&M University, College Station, Texas with a Master of Science degree in Economics. I have been employed by the Illinois Commerce Commission ("Commission") since June, 1990.

I began work for the Commission as an Economic Analyst II in the Rate Design Department of the Public Utilities Division. In December 1992, I was hired as an Economic Analyst III by the Water and Sewer Program of the Office of Policy and Planning. In September 1996, I transferred to the Energy Program of the Office of Policy and Planning as an Economic Analyst III. In January 1998, I was hired as an Executive Assistant to Commissioner Richard Kolhauser. I provided policy and technical analysis for Commissioner Kolhauser on all energy, water/wastewater and transportation matters before the Commission.

In January 2000, I was hired as an Economic Analyst IV by the Energy Division. I have previously testified on behalf of Staff in numerous dockets concerning energy and water/wastewater issues.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to respond to the direct testimony and exhibits of MidAmerican Energy Company ("MEC") and any interveners. Specifically, I address issues related to gas transportation service as discussed in the testimony of MEC witness Gregory C. Schaefer ("GCS Direct"). My testimony addresses the Company's proposed changes to the following transportation services: (1) Standby Provisions; (2) Balancing Provisions; (3) Cash-Out Provisions; (4) Transportation Metering Charges; and, (5) Transportation Administrative Charges.

Rider No. 9 Firm Supply Standby Service

Q. Please explain MEC's proposed changes to the cost of gas for Rider No. 9, Firm Supply Standby Service.

A. Currently, MEC charges the monthly Purchased Gas Adjustment ("PGA") rate for each therm utilized by transportation customers on Company Supplied Reserve ("CSR"), which is the current standby tariff. The Company proposes to replace the CSR tariff with Firm Supply Standby Service, and replace the PGA rate with a rate equal to 110% of the "Gas Daily" interstate pipeline index, including applicable interstate pipeline charges. (MEC GCS Direct, p. 11)

Q Do you agree with MEC's proposal to replace the PGA with 110% of the "Gas Daily" index for Rider No. 9?

A. No, because MEC has not demonstrated that 110% of the Gas Daily Index more accurately reflects MEC's actual costs of gas supply to serve the customer. In addition, although it is possible that a Gas Daily Index more accurately measures MEC's costs for Firm Supply Standby Service, there is no rationale for adding 10% to the Gas Daily Index.

Q. Does the Company propose its changes to Rider No. 9 to reflect a more accurate measure of the Company's cost of gas supply?

A. No. It appears from the testimony of MEC witness Schaefer that the reason for the proposed change is to consolidate MEC's terms and conditions for transportation service across its service areas. (MEC GCS Direct, p. 11). In my opinion, tariff consolidation is not a sufficient reason for a change of this nature, i.e., one that could result in a less accurate measure of MEC's gas supply costs for these customers. In addition, since the Commission does not regulate MEC in other states, and the regulation that MEC is under in other states may differ significantly from Illinois law, the terms and conditions of MEC's tariffs in other states are not necessarily relevant criteria for the Commission to base findings upon. Currently, there are no customers utilizing CSR service so the change in commodity pricing for firm standby has no effect on transportation customers today.

Q. Is it common for a utility to employ a market index like the Gas Daily Index to charge transportation customers for the cost of gas that the Company procures, e.g., for net monthly imbalances?

A. Yes, but the balancing service is not necessarily the same as Firm Supply Standby Service, and may not result in the same gas supply cost to the Company. With imbalances, the Company is holding itself out to pick-up the unpredictable differences between actual transportation customer usage and actual transportation deliveries to the Company's city-gate. If the latter swings are larger or smaller than expected, the swings can affect the cost of gas to sales customers by forcing the Company to make unplanned market purchases. Thus, for balancing service, a Gas Daily Index that is a good proxy for the cost of spot market purchases to the Company is most likely superior to the PGA, which is an average cost of gas for the month. Furthermore, utilization of a relevant spot market index for cashing out net monthly imbalances discourages systematic gaming of the PGA by transportation customers.

Under Firm Supply Standby Service, the Company is not exposed to the same unpredictable daily swings in customer usage as it is when providing balancing service because the transportation customer removes the uncertainty in serving its load by committing in advance to a contracted level of company-owned gas to be supplied under the tariff. The Company must stand ready to serve this entire load and is adequately compensated via the PGA rate. The Company may utilize the same service it utilizes for sales customers or it may make spot market purchases for the commodity to provide Firm Supply Standby service and the commodity rate should reflect the Company's actual cost of gas for providing the service as opposed to what the tariff states in another MEC jurisdiction. I assume that MEC will provide Firm Supply Standby service in the same manner as it provides sales service and thus I recommend that the PGA remain as the commodity rate for this service.

Rider No. 8 Non-Critical-Day Daily Balancing of Customer-Owned Volumes

Q. Please explain the Company's proposed changes to its current Daily Imbalance Services, Rider No. 8, Non-Critical-Day Daily Balancing of Customer-Owned Volumes. (MEC Schedule E-1, p. 21 of 24; MEC GCS Direct, pp. 12-14)

A. The Company proposes to narrow the tolerance bandwidths that are applicable to daily imbalances and that determine the size of the penalty charge applicable to the daily imbalances. The narrowing of the tolerance bandwidths reduces customer flexibility and potentially exposes a greater number of customer owned therms to the Company's highest penalty charge of $0.10 per therm. Currently, a customer is charged zero cents per therm for a daily imbalance that is plus or minus 10%. If daily imbalances are within the plus or minus 10-30% range, then the applicable rate is $0.01 per therm. For all therms over 30%, the applicable charge is $0.10 per therm. The Company proposes to reduce the 10-30% tolerance bandwidth to 10-20% and will apply the $0.01 per therm charge to this tolerance bandwidth. Thus, the $0.10 per therm charge is now applicable to all therms above the 20% level. (MEC GCS Direct, p. 13)

Q. What is the revenue effect of applying the $0.10 per therm charge to a greater number of therms for transportation customers?

A. It is uncertain at this time. If customers behave as they have in the past, a somewhat unrealistic assumption, then it is possible that the increase will be dramatic. From my review of the Company's data response POL-1.16 Attachment POL-1.16, p. 2, dated January 22, 2002, it is possible that transportation customers will pay 80% more in annual revenues for balancing services, assuming they do nothing to alter their daily imbalances. Applying the highest penalty charge to a greater number of daily imbalances should alter customer behavior and it is safe to assume that the actual increase is less than 80%. Since customers must alter behavior to avoid the higher penalty charges, MEC's proposed changes reduce customer flexibility in utilizing this service. The Company also proposes an optional Daily Balancing Service ("DBS"), which may mitigate both the size of the increase to customers, and the diminished flexibility in Rider No. 8 service. I address DBS later in my testimony, but in short, I find DBS problematic because the charges are not flowed through the PGA, creating the potential for sales customers to subsidize the service..

Q. Do you agree with the Company's proposed changes to the tolerance bandwidths that apply the $0.10 per therm charge to a greater number of therms for daily balancing services, Rider No. 8?

A. No. The lone justification for the changes is to consolidate tariffs with other MidAmerican service areas. (MEC GCS Direct, p. 13) Earlier in my testimony I discussed the problems with relying upon tariff consolidation as a rationale for supporting tariff changes, and those problems are applicable to MEC's rationale for changing Rider No. 8. The Company should demonstrate that its cost of balancing service is increasing and/or that transportation customers systematically game the current tariff provisions before changes of such magnitude are considered. Although there is no "optimal" range for tolerance bandwidths, if the current design does not unreasonably increase costs to the Company and reflects the service MEC receives on the dominant interstate pipeline for the MEC service area, then transportation customers should continue to be afforded the flexibility provided by the current tariff design.

Q. Have you asked MEC whether the proposed changes to Rider No. 8 are supported by actual increases in balancing costs from the interstate pipelines?

A. Yes, the Company was asked this question in Staff Data Request DB-2.3(ii), dated February 15, 2002. In its response, dated February 22, 2002, the Company indicates that its changes to Rider No. 8 do not reflect increases in costs for daily balancing services from interstate pipelines but are intended to consolidate system-wide balancing while providing a reasonable incentive for transporters to balance deliveries with usage. MEC's full response is set forth below:

> No. The proposed change in balancing penalties is not based upon changes in pipeline provisions but rather is intended to consolidate system-wide balancing while providing a reasonable incentive for transporters to balance deliveries with usage. In addition, the consolidation would allow broader grouping / aggregation of transportation customers. Note that Rider 11 (Optional Group Balancing) allows customers to form balancing groups, with balancing penalties being assessed on the net imbalance of the entire group rather than on the imbalances if each individual customer. Without Group Balancing, customers with large imbalances in opposite directions would each be assessed an imbalance penalty. If these customers were to subscribe to the Group Balancing service, any penalties would be assessed only on the net imbalance of the customers. Under the Terms of Rider 11, customers can form groups only within areas having "the same balancing provisions." This is necessary because it would be impossible to calculate penalties for the balancing group as a whole

if individual members were in differing jurisdictions having differing balancing provisions. By consolidating balances provisions across the entire service area, customers would have more freedom in forming balancing groups and imbalance volumes would likely decline.

Q. How is the Company charged for daily imbalances from interstate pipelines?

A. Total deliveries to the Company's Illinois service area are primarily provided via Natural Gas Pipeline Company of America ("NGPL") and Northern Border ("NB"). However, nearly all of the deliveries via NB are directed to a single customer, i.e., the Cordova Electric Generating Plant ("Cordova"), which is the largest single customer on the MEC system and an affiliate of MEC, so my response is directed to daily balancing service from NGPL. According to the Company's data response, Policy 1.9 and Attachment POL-1.9, dated January 22, 2002, the Company receives daily balancing services from NGPL through a combination of storage, transportation and no-notice service that is referred to in total as "DSS" service. For days without operation flow orders, the NGPL bandwidths and applicable charges are as follows: 0–5%, No Charge; 5%-10%, $0.01 per therm; 10%-20%, $0.02 per therm; 20%-50%, $0.05 per therm; and above 50%, $0.10 per therm. (Attachment POL-1.9)

Q. Is it reasonable for MEC's daily balancing bandwidths and charges to resemble those that MEC faces on NGPL?

A. Yes, because NGPL is the dominant supplier to MEC in Illinois and because one of the goals in designing this service is to discourage behavior by transportation customers that may result in daily balancing charges to MEC from NGPL and other interstate pipelines. With that in mind, I note that the current Rider No. 8 tolerance bandwidths and charges more closely resemble those set forth in the NGPL tariffs than the Company's proposed changes to Rider No. 8. Thus, it appears that the Company's proposed changes to Rider No. 8 will unnecessarily depart further from the primary limitations imposed upon the Company by NGPL. Furthermore, for the reasons stated earlier in my testimony, consistency across state regulatory jurisdictions, in this instance for group balancing, is not a sufficient reason to support these changes.

Q. What other concerns do you have with respect to Rider No. 8 Non-Critical-Day Daily Balancing?

A. The Company currently charges and proposes to charge the daily imbalance penalties to all daily imbalances. However, not all transportation customers' daily imbalances cause additional costs to the Company and some transportation customers' daily imbalances are beneficial to the Company. For example, if the Company is "short" gas in total (including sales and transportation gas) on a particular day, then transportation customers who are out of balance "long" are providing a benefit to the Company and should not be penalized with the daily imbalance charges. To reflect the fact that a transportation customer's daily imbalances may be beneficial to the Company, I recommend that the daily imbalance charges in the current tariff and the proposed tariff (assuming the Company's proposed tariff is adopted) apply only to those transportation customers who are out of balance in the same direction as the total system imbalance.

Q. Does the Company waive daily imbalance penalties for transportation customers if their imbalance is opposite the Company's total system imbalance on critical days?

A. Yes, the Company follows this policy for critical days (see MEC Rider No. 8), i.e., if the Company calls a long critical day, then the transportation customer is permitted to consume Company owned gas without incurring the daily imbalance penalty charges. Conversely, if the Company calls a short critical day, then the customer is allowed to cause positive imbalances without incurring the daily imbalance penalty charges. Clearly, the Company recognizes that some transportation customer daily imbalances are beneficial to the system on the days when gas is most costly to the Company; the Company should extend this provision to non-critical days as well. The Company also applies Additional Charges on MEC Rider No. 7, due to a customer's imbalance, only to those transportation customers whose net delivery imbalance is in the same direction as the total system imbalance. (MEC Schedule E-1, p. 19)

Rider No. 15 Daily Balancing Service (DBS)

Q. Please explain MEC's proposed optional service, Rider No. 15 Daily Balancing Service ("DBS"). (MEC GCS Direct, p. 10; MEC Schedule E-1, p. 24)

A. DBS is a an optional service that allows transportation customers to purchase a larger tolerance bandwidth before penalty charges are invoked on MEC Rider No. 8 Non-Critical-Day Daily Balancing Services. A transportation customer utilizing MEC Rider No. 15 DBS provides a nomination amount for daily imbalances at the beginning of the month to the Company. The nominated imbalances are charged a reservation rate of $0.15 per therm. All actual daily imbalance amounts in excess of the 10% free tolerance bandwidth and up to the nominated daily imbalances during the month are charged a commodity rate of $0.003 per therm. (MEC Schedule E-1, p. 24) The DBS initiates after the 10% free tolerance bandwidth on MEC Rider No. 8. If a DBS customer uses an amount in excess of its nomination, then the excess is assigned to the applicable MEC Rider No. 8 tolerance bandwidths greater than 10%, and the applicable MEC Rider No. 8 penalty charges are assessed. None of the MEC Rider No. 15 DBS charges are flowed through the PGA.

Q. You indicate in your previous response that MEC Rider No. 15 DBS charges do not flow through the PGA; what does the PGA rule say about the treatment of these types of costs?

A. Section 525.40 of the Commission's rules for the Purchase Gas Adjustment Clause sets forth the following costs to be included in the PGA:

a) Costs recoverable through the Gas Charge(s) shall include the following:

1) costs of natural gas and any solid, liquid or gaseous hydrocarbons purchased for injection into the gas stream or purchased as feed-stock or fuel for the manufacture of gas, or delivered under exchange agreements;

2) costs for storage services purchased;

3) transportation costs related to such natural gas and any solid, liquid or gaseous hydrocarbons and any storage services;

MEC's costs associated with providing daily balancing service fall within these categories. Furthermore, Section 525.40(e) sets forth that:

> e) Revenues from penalty charges or imbalance charges, which the Commission has previously approved to prevent unauthorized actions of customers, shall offset gas costs.

Accordingly MEC must flow the charges in MEC Rider No. 15 DBS through the PGA

Q. Do you recommend approval of MEC Rider No. 15 DBS?

A. No, unless all DBS charges are flowed through the PGA. MEC provides daily balancing service under MEC Rider No. 15 by utilizing the same facilities and services currently employed to serve sales customers, e.g., DSS via NGPL, and other leased storage assets. The cost associated with all daily balancing service is currently recovered from sales customers via the PGA and thus charges to transportation customers are flowed through the PGA as an offset or credit to sales customers. Although MEC's proposed DBS may benefit customers by lowering their total daily balancing costs, this implies that daily balancing costs to MEC are decreasing and are not a rationale for MEC to retain these charges as profit. Unless the DBS charges are flowed through the PGA, then sales customers are at risk for subsidizing the service.

Q. In your opinion, are the proposed MEC Rider No. 15 DBS "reservation" and "commodity" charges the same as penalty charges under MEC Rider No. 8?

A. Conceptually, yes, i.e., they serve the same purpose as penalty charges. The charges should not reflect the cost of gas to MEC because the latter is reflected in the daily cash-out provisions of MEC's tariffs and MEC proposes to continue to cash-out a DBS customer. Conceptually, the DBS charges appear to be lower penalty charges offered by MEC if a customer commits to reserve a specific amount of penalty charges each month.

Q. Did you ask MEC how the proposed MEC Rider No. 15 DBS charges were calculated?

A. Yes. According to MEC's response to Staff Data Request DB-2.7(v), the DBS charges were calculated "to reflect prices available to customers for similar services from other suppliers." The Company included copies of tariff sheets that I requested; the charges for MEC Rider No. 15 DBS are identical to MEC's charges for this service in its Iowa and South Dakota service areas.

Q. Is this a sufficient rationale for understanding the proposed DBS charges?

A. No. MEC does not explain what prices are available to customers, and from whom. Nor do they explain how they calculated the DBS charges from those alleged prices and how MEC's costs of owned/leased facilities and services are allocated in arriving at the charges. Since the charges are identical to MEC's other service areas, it appears that consistency across service areas is how the company arrived at the charges for Illinois. From follow-up discussions with MEC, and MEC's supplemental response to DB-2.7(v), dated February 27, 2002, it appears that the DBS charges were developed for other service areas to mimic a similar service provided by Northern Natural Gas pipeline and to provide a consistent group balancing service across state regulatory jurisdictions. For the reasons stated earlier in my testimony, consolidation of tariffs across regulatory jurisdictions/service areas is not a sufficient basis for supporting MEC's proposed tariff changes.

Q. Please summarize your recommendations for Rider No. 15 DBS.

A. I recommend that MEC Rider No. 15 DBS be rejected unless MEC proposes that all charges flow through the PGA or the Commission requires that all charges in Rider No. 15 DBS flow through the PGA to offset system gas costs, per Section 525.40(e).

Monthly Cash-Out MEC Rider No. 7 Transportation of Customer Owned Gas and MEC Rider No. 6 Pipeline Index Pricing Points

Q. Please explain the Company's proposed changes to MEC Rider No. 7 with respect to monthly cash-out provisions. (MEC Schedule E-1 pp. 19-20)

A. The Company proposes to replace the current price of gas (PGA) at which customer imbalances are bought and sold with a Gas Daily Index. The Company also proposes to cash-out daily imbalances on a daily basis rather than cash-out the net daily imbalances at the end of the month. (MEC GCS Direct, pp. 14-15)

Q. Do you agree with the Company's proposed changes to its cash-out provisions?

A. I agree with MEC's proposal to replace the PGA with a Gas Daily Index. A relevant daily market index should provide a better proxy for daily spot market purchases for imbalances than the weighted average PGA, and should discourage transportation customers from attempting to game the PGA. The Company currently utilizes two different index prices for cash-outs depending on whether the imbalance is positive or negative. (MEC Rider No. 6 Pipeline Index Pricing Points Schedule E-1 P. 10) It is unclear whether the use of two Indexes in MEC Rider No. 6 is appropriate. In my opinion, there should be one market price for cash-outs. MEC's response to Staff data request DB-2.1, dated February 27, 2002, provides additional information regarding the use of the Gas Daily Indexes. However, the information that MEC provided in its response is problematic. It appears that MEC no longer utilizes Gas Daily's Gas Transportation Report because the publication is no longer available. MEC apparently uses similar information that is posted on capacity release from interstate pipelines as a proxy for the tariff. This response is problematic because it appears that MEC has not followed its tariffs since September 2000, with respect to the use of Gas Daily's Gas Transportation Rate. I recommend that MEC fully address this matter in its rebuttal testimony. At a minimum, MEC should provide the capacity release data that it has utilized since September 2000, and discuss why or why not capacity release to MEC's affiliate(s) was or was not included in these calculations and the resulting effect on the cash-out rate. I will address this issue further in future testimony.

I agree with MEC's proposal to change the monthly cash-out provisions such that the customer's daily imbalance is cashed-out in dollars on a daily basis. Currently, MEC sums up the daily imbalances in therms for the billing period and cashes out the total net imbalance of therms at the end of the billing period. If a customer is out of balance near the end of the month, they can attempt to adjust their deliveries and usage for the remainder of the month to mitigate the imbalances. Although this behavior may reflect a customer's actual usage of gas for its business processes, there is still a daily cost of gas to MEC from this type of behavior. The current tariff may understate this cost of gas to the customer by allowing some actual daily imbalances to vanish at the end of the month. Under its proposed tariff, MEC will charge or credit net dollars derived from actual daily imbalances at the end of the billing period. The net dollars are calculated by applying the daily market index to the positive or negative daily imbalance. Each day's dollars are summed over the billing period and the net dollars are then charged or credited to the customer. Essentially, MEC will cash-out dollars instead of therms at the end of the billing period.

Transportation Metering Charges

Q. Please explain MEC's proposal regarding transportation metering charges. (MEC GCS Direct, pp. 15-16)

A. MEC proposes to cease applying the monthly telemetering charge to existing transportation customers. Further, the Company proposes to charge new transportation customers upfront the actual cost of telemetry, installation and hardware. (MEC Rider No. 7 Transportation of Customer Owned Gas, Schedule E-1, p. 16)

Q. Do you agree with the Company's proposal regarding transportation metering charges?

A. I do not see support for the Company's rationale. MEC claims that there is a potential for sales customers to subsidize transportation customers when a transportation customer returns to sales service before it has fully paid for the upgraded metering costs. (MEC GCS Direct, p. 16) Although this scenario is possible, MEC does not appear to experience a significant occurrence of shifting between sales and transportation customers. Thus, any perceived subsidies are small. My main concern is the upfront cost to the customer, which on average is expected to be about $700. MEC should offer a deferred payment plan for these costs for new transportation customers that follows the customer in the event that it switches back to sales service. If the entire amount is collected from the customer, then there is no reason for MEC to incur additional costs associated with removing the metering equipment and the equipment should remain at the customer's premises.

In addition, I am concerned with whether MEC's proposed tariff change, coupled with provisions in MEC's contract with its affiliate, Cordova, will lower telemetering costs or any other customer charge costs to Cordova. (MEC Firm Natural Gas Distribution Agreement Article VI. Rates D) I request that MEC discuss, in its rebuttal testimony, how this proposed change, and any other Commission approved change in rates, affects Cordova, pursuant to Article VI. Rates D of the contract between MEC and Cordova. I also recommend that MEC develop a deferred payment proposal to provide new transportation customers a monthly payment option for the upfront charge and discuss this in its rebuttal testimony. I will comment on these issues further in future testimony.

Transportation Administrative Charges

Q. Please explain MEC's new Administrative charge for transportation customers of $250. (MEC GCS Direct, pp. 16-18; MEC Schedule GCS-4; MEC Schedule E-1 p. 16)

A. MEC proposes a charge of $250 when transferring a sales customer to transportation service, and a $250 charge when transferring a transportation customer to sales service. MEC claims that the charge reflects the cost of MEC employees who perform the tasks needed to carry out the transactions. (MEC GCS Direct, p. 17)

Q. Do you agree with MEC's proposed $250 administrative charge for transportation customers?

A. No, and I recommend that the charge be rejected by the Commission. My concern is that, for the employees assigned to perform these customer switching tasks, their salaries are already rolled-in to base rates. Thus, MEC is currently fully compensated for all of the work performed by these employees, including switching transportation customers to and from sales service.

Q. Have you asked MEC whether the salaries of the employees performing these tasks are already included in base rates for the test year?

A. Yes, and in its response to, Staff data request Policy 1.7, dated January 22, 2002, MEC indicates that, "Job descriptions for the Energy Consultant, Gas

Supply Specialist, EMS Analyst (similar to the Metretek Operator), and Serviceman positions are enclosed as Attachment POL 1.7. Current descriptions for the Transportation Billing Specialist and Transportation Specialist are not available. All positions except the union Serviceman position are salaried. Each of these jobs involves a number of duties in addition to transferring customers between sales and transportation service, and Exhibit GCS-4 identifies only the portion of their time required to transfer one such customer. All salaries charged or allocated to Illinois gas functions are recovered in base rates. All salaries charged or allocated to Illinois gas functions are recovered in base rates."

MEC fully recovers the cost of providing this service in base rates, as does every major gas utility in Illinois. I reviewed the tariffs for Northern Illinois Gas, Peoples Gas, Illinois Power, Ameren CIPS, and Central Illinois Light Company and none of these gas utilities charges a separate fee for switching customers to and from transportation service. MEC's proposal is unnecessary and should be rejected.

Q. Does this conclude your direct testimony?

A. Yes, it does.